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GREEN FINANCE: THE KEY TO ACCELERATING GLOBAL ENVIRONMENTAL SUSTAINABILITY

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Abstract

Green finance has become a crucial instrument for driving global environmental sustainability. This paper analyzes the mechanisms of green financial instruments, such as green bonds and climate funds, and their impact on promoting low-carbon investments. It explores the role of financial institutions, governments, and international organizations in creating a supportive framework for sustainable finance. By channeling capital towards environmentally responsible projects, green finance not only mitigates climate risks but also fosters economic growth that aligns with global climate goals.

Keywords: Green finance, sustainable investment, environmental sustainability, climate finance, green bonds, low-carbon economy, financial policy.

Introduction

Financing sustainable growth has emerged as one of the most important challenges in achieving global environmental goals. Green finance — which channels investments into environmentally responsible projects — is at the heart of this effort. It provides the financial foundation for renewable energy, climate adaptation, and other green initiatives that reduce carbon emissions and promote long-term sustainability. Governments, financial institutions, and investors are increasingly recognizing that environmental protection and economic growth are not mutually exclusive but can reinforce each other. Despite this progress, challenges such as inadequate regulation, limited access to green capital, and lack of transparency still hinder large-scale adoption. This article examines the

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principles of green finance, its key instruments, and its growing role in supporting the transition toward a sustainable global economy.

Green finance has been a burgeoning sector since the Paris Agreement and is at the crossroads of financial, socio-economic and environmental challenges. It is hybrid in nature: it uses financial instruments and focuses on environmental issues, while coming under the wider field of so-called "sustainable" finance that assumes a broader approach with the inclusion of socio-economic and governance challenges. It is a catalyst as it facilitates and accelerates the transition to a low-carbon economy. It also includes an increasing range of instruments. From green bonds to green indices, green loans and capital raising activities, the sector is growing both quantitatively and qualitatively. So-called "green" issuance debt alone increased fivefold in nearly three years to reach US $ 257 billion in 2019, emphasizing its on-going innovation and attractiveness.

Green finance embraces the various objectives of public and private actors. It also raises major questions about the future of our societies: choosing to finance only sectors that are already "green" entails significant socio-economic risks, such as job losses in high-emitting (brown) sectors and stranded assets. Adopting a sequenced approach potentially amounts to locking in polluting activities in the long term and not achieving the Paris Climate Agreement's objectives (lock-in effect).

In view of the physical risks of climate change (devastation and disasters) and those related to energy transition (stranded assets), climate change is now generally considered as a systematic risk. Public and private actors– institutional investors, banks, regulators, central banks, insurers, credit rating agencies, states, multilateral organizations – are taking action both to better understand the risks posed by climate change, and to capitalize on opportunities in this growing field. Green finance provides the financial sector with instruments to effectively reorient capital towards the low-carbon transition. Against a background of uncertainty about the effects of climate change, green finance also reduces the information asymmetry about risks related to major ecosystem disruptions. The structuring and distribution of "green" products are important growth drivers for many stakeholders and in a wide variety of sectors.

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However, many risks and challenges remain: financial risks, specifically related to high levels of subsidies for the production and use of fossil fuels, and the lack of a single carbon price; structural risks, which hamper the economic attractiveness of sustainable activities, particularly in terms of profitability; and unclear political signals, notably resulting in regulatory uncertainty. Furthermore, the language of green finance remains fragmented and is still relatively vague: there are many reporting frameworks and taxonomies, preventing easy and uniform ownership by stakeholders. Standardized methodologies, requirements and disclosures are critically needed. A common language is required, not only among Europeans but worldwide, to ensure that financing the ecological transition is genuinely effective.

The quality and comparability of non-financial reporting must be significantly improved to ensure its effectiveness. The principle of double materiality of information – financial and non-financial – is crucial. Green finance provides the entire financial system with instruments to accomplish its transition. It also avoids both a "niche" and a lax approach that are conducive to greenwashing and damaging to the sector growth, and, ultimately, to the transitional objective of green finance. As a source of systemic risk, and in view of the challenges of financing the transition, the aim is to ensure that the concept of sustainable finance remains purposeful by integrating environmental, social and governance (ESG) "filters" into the overall operation of capital markets.

There are many risks of intentional or unintentional greenwashing for market actors: making wrong investment choices, because they are ill-informed about the real nature of sustainability; seeing their reputation discredited in their clients and fund managers' eyes; undermining trust and the fundamentals of green finance.

The European Union (EU) has taken the lead on these issues. The European Commission's (EC) Action Plan on Financing Sustainable Growth of March 2018 aims to reorient capital flows towards a more sustainable economy, integrate sustainability into financial institutions' risk management and promote transparency and long-term awareness within financial institutions. This Action Plan includes numerous instruments, such as an Ecolabel for financial products, the development of a European standard for green bonds, a so-called

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"Disclosure" regulation legislating on non-financial reporting by market actors, and the clarification of banking and investment advisors' duties in terms of integrating ESG factors and incorporating sustainability into prudential requirements for banks and insurers. One of the main instruments is the European "taxonomy" for sustainable economic activities, which is intended to establish a common language for greening the financial sector by covering a wide range of actors and activities, at least on a voluntary basis. This future taxonomy has major global potential that could boost the EU's normative power. Consequently, these challenges are now the focus of the G20 and its Financial Stability Board (FSB), and that of the United Nations.

The EU's sustainable finance strategy is over the long term, striving to take as comprehensive a view as possible of financial regulation and climate change, and therefore fully redirect capital flows towards financing the transition. The next few months will be critical for the future of the sector, with work continuing on the European taxonomy, the preparation of delegated acts subsequent to the final recommendations prepared by the EU's Technical Expert Group on Sustainable Finance (TEG), and the implementation of the European Green Deal.

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